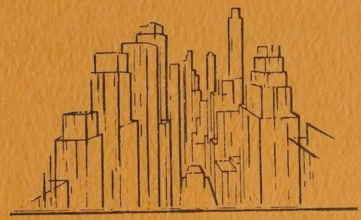
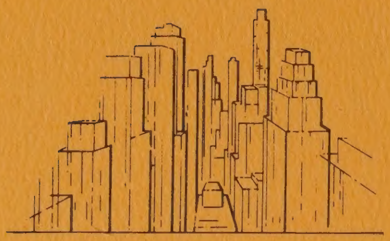


1966

ANNUAL REPORT

Sub

FRANCHARD CORPORATION



Properties Owned By
Franchard Corporation and Its Subsidiaries

OFFICE BUILDINGS
General Motors Building, New York City*
501 Fifth Avenue, New York City
37 Wall Street, New York City
42 Broadway, New York City*
Military Park Building, Newark, N.J.
Stanbalt Building, Baltimore, Md.
201 No. Wells Street, Chicago, Ill.
Bartlett Building, Los Angeles, Calif.
Bendix Building, Los Angeles, Calif.
Security Title Insurance Building, Los Angeles, Calif.*
Knight Building, Toronto, Canada
Northern Ontario Building, Toronto, Canada

HOTEL
Commodore Hotel, New York City*

INDUSTRIAL & COMMERCIAL PROPERTIES
Manhattan Industrial Center, New York City
Great Brook Industrial Park, Waterbury, Conn.
Cold Storage Plant, Exmore, Va. •
Federal Center, Fort Worth, Texas

* *designates leasehold.*

• *operated by unaffiliated net lessee; all other properties are operated by the company or a subsidiary.*

To Our Share Owners:

Your company continued its favorable progress in 1966—in the strengthening of its financial position, in the disposition of two unprofitable buildings and in improving the operation of other properties. It also capitalized on its substantial cash position by making three large, secured loans during the tight money market which prevailed in the latter part of the year.

Net income for the year was 72¢ a share, including gains on sales and other extraordinary items, compared with a loss of 47¢ per share for 1965. Share owners' equity increased by some 17% while book value per share at year-end increased by 32% over the prior year.

FINANCIAL POSITION

Working capital increased during the year to $3,179,456 from $2,135,738 at the 1965 year-end. The ratio of current assets to current liabilities also showed improvement and stood at 1.72 to 1 at the end of the year, compared to 1.54 to 1 at the end of 1965.

Cash and equivalent holdings, together with the loans that were made during the latter part of the year, aggregated $6,059,440, more than twice the amount at the end of the previous year. This increase resulted principally from operations, property transactions which yielded cash proceeds of $1,126,166, and the $1,000,000 received from General Motors Corporation on its lease extension.

Amortization payments on mortgages made during the year totalled $1,096,482, compared with $1,152,175 in 1965. In the earlier year, however, there were other payments totalling $1,481,666 in reduction of long-term debt. The cost of property improvements, tenants' alterations and leasing expenditures was $1,090,256 as against $1,457,298 similarly invested in the prior year.

Share owners' equity at the end of 1966 had risen to $16,544,002, after accumulated depreciation and leasehold amortization, from the $14,154,914 shown at the end of the preceding year. The 1966 book value was equal to $2.96 a share on 5,595,680 shares, the aggregate of Class A and Class B outstanding at the year-end. The comparable figure at the end of 1965 was $2.25 a share on the 6,289,560 shares then outstanding. The reason for the reduction in the number of shares was the exchange of Class A stock in the debenture exchange offer made during 1966. Debentures totalling $1,734,700 in face value were outstanding at the end of 1966.

Accumulated depreciation and leasehold amortization was $32,999,966 at year-end, after reduction of $3,159,244 as a result of the disposition of properties during the year and the cancellation of the second mortgage on the Great Brook Industrial Park property.

Long-term mortgage debt at December 31, 1966 was $33,789,490 compared with $40,413,708 a year earlier. A major part of the difference can be attributed to termination of the company's liability on the Great Brook second mortgage of $3,500,000 as a result of the cancellation of the lease on the property because of the tenant's default. Also reflected is the elimination of mortgages on the other properties disposed of during the year.

The extraordinary scarcity of funds at lending institutions last year provided the company with the opportunity to employ its cash on favorable terms. Three loans totalling $4,700,000 are described in Note 2 to the Financial Statements. Two of them are due in 1967 and accordingly are shown as current assets in the 1966 balance sheet. The third, in the amount of $1,500,000 is due in 1968 and, therefore, is treated on a non-current basis. In addition to the interest rates and other terms described in Note 2, with respect to the two loans to publicly owned companies the company was granted stock options, one at a price considerably lower than the stock is currently quoted in the over-the-counter market, the other at a price approximately at its present quotation in the same market. No value has been assigned to these options.

1966 OPERATIONS

Rents and related revenues in 1966 were $22,400,912, compared with $24,060,819 in 1965. It should be pointed out that figures for both years include operations of the Hotel Commodore, which contributed $8,614,448 to revenue and an operating loss of $195,622 in 1966 after depreciation and leasehold amortization. The comparable figures in 1965 were $9,775,783 and $408,669. The company's lease on the Commodore expires at the end of 1967 and negotiations now in progress may lead to an earlier termination.

Building and hotel operating expenses were lower for the year, totalling $12,806,170 against $13,618,516 in 1965. Further reductions also were reflected in general and administrative expenses, which declined to $732,165 from $799,016 in the preceding year.

Income from operations, before depreciation and leasehold amortization, minority interests, property sales and other items, was $1,748,636, a gain of $102,597 over the $1,646,039 shown in 1965. The loss before extraordinary items was $926,774, compared with $1,905,483 in 1965. Net gains on property transactions added $5,085,821 to income in 1966. Such gains in the prior year were $238,760 which, however, were more than offset by an extraordinary write-down in the value of the Hotel Commodore leasehold, resulting in an additional loss of $927,605 for that year.

Net income after all transactions in 1966 was $4,159,047, equal to 72¢ a share for the outstanding Class A and Class B stock. No provision for federal income taxes has been made against 1966 income because of a substantial tax loss carry-forward, as described in Note 11 to the Financial Statements.

PROPERTY TRANSACTIONS

More than half of the $5,085,821 in gains realized in property transactions, or $2,880,898, arose from the sale of the Hotel St. Regis. When that sale was completed in 1965, the company took in part payment a $4,000,000 subordinate mortgage, secured by the property. Since collectibility was contingent largely on the profitable operation of the hotel, the profit on the transaction was not reflected in 1965. Subsequent leasing of the hotel to a subsidiary of Sheraton Corporation of America, with the parent's long-term guarantee, and other information concerning the lease that recently became available to management, indicated that the mortgage would be collectible and that the gain on the sale should be shown as a profit on the company's books. Accordingly, it is reflected in the income account for 1966.

Other gains realized during the year included a credit of $1,176,127 on termination of the tenant's lease on Great Brook Industrial Park, and a profit of $854,515 on the sale of the Douglas Oil Building leasehold in Los Angeles. Two other leaseholds—one at 711 Main Street in Houston and one at 63 Wall Street, New York City—also were disposed of, with a net addition to book profit of $174,281. The former had been operating at a substantial loss, as would the latter had the company continued its operation.

LEASING ACTIVITIES

The company's aggressive leasing program continued during the year and was effective in attracting new tenancies paying $1,239,959 in annual rentals compared to $1,141,341 in 1965. However, leasing remains highly competitive, especially in view of intensive new building of commercial properties in prime areas, and the loss of revenue from vacancies during the year in the company's present properties increased by approximately 5%.

General Motors Corporation's lease, covering about 86 per cent of the rentable area in the General Motors Building in New York City, which had been scheduled to expire on April 30, 1968, was extended for one year. The extension agreement provides that the tenant may cancel on or after October 31, 1968 on making certain payments to the company for the period cancelled. The tenant may also extend the lease for a further year under certain emergency circumstances, the occurrence of which cannot be reasonably anticipated, with the same cancellation provisions on or after October 31, 1969. In connection with this transaction, the company received a payment of $1,000,000, which is shown on the balance sheet as a deferred credit, to be taken into income as it is earned over the lease extension periods.

MANAGEMENT ADDITIONS

Gordon K. Greenfield was elected president and chief executive officer of the company last November, succeeding Louis A. Siegel, who was elected vice chairman of the board and chairman of the executive committee. Mr. Greenfield has been a director since last year's share owners' meeting.

The board of directors also voted last November to increase its size to

eleven members, and to fill the two vacancies created elected Gustave G. Amsterdam, chairman of the board and president of Bankers Securities Corporation, Philadelphia, a mercantile and real estate owning and operating company, and Murry C. Becker, senior partner in the New York law firm of Becker, Ross & Stone.

TAX RULING ON PRIOR DISTRIBUTIONS

Share owners who owned shares prior to February, 1963 will recall that it was then the company's estimate, subject to examination by Internal Revenue Service, that no part of the cash distributions was taxable as dividends for federal income tax purposes. After an examination of the company's tax returns, completed in 1966, Internal Revenue Service determined that 6.73% of each 1960 distribution and 17.32% of each 1961 distribution were taxable as dividends. It also confirmed that no part of the 1962 distributions was taxable as a dividend.

Share owners who received cash distributions in 1960 and 1961 may wish to confer with their tax advisors as to the effect of this ruling on the tax basis of their stock and the advisability of filing amended tax returns for these years.

Examination of the 1963 return has not been made, but the company continues to believe that no part of the cash distribution made in that year was taxable as a dividend.

The examination did not result in any federal income tax being assessed against the company, but it did reduce the depreciable basis and extend the tax lives of certain properties. The company continues to have a substantial tax loss carry-over, as indicated in Note 11 to the Financial Statements.

OFFER TO PURCHASE SMALL SHARE HOLDINGS

Transfer agent and registrar fees, annual reports and other costs relative to share owner accounts have been increasing and represent a substantial annual expense to the company. Though mindful of the desirability of a wide distribution of the company's shares, the maintenance of accounts for small share holdings is particularly costly.

The company presently has about 11,850 share owners. At the end of last year there were approximately 4,400 share owners who owned less than 100 shares each and, in the aggregate, held less than 135,000 shares. In other words, about 37% of the share owners hold less than 3% of the total shares outstanding.

In the interest of economy, the company intends in the near future to mail to each person now owning less than 100 shares a letter offering to purchase their shares at a price of $2.50 per share, the total purchase not to exceed 135,000 shares. The company will use its cash funds on hand to pay for the shares purchased.

The acquisition of these shares by the company will increase, by about one-half percent, the present percentage of the total outstanding shares now owned by officers and directors of the company; and will result in an increase

of about 1¢ per share in the book value as at December 31, 1966 of the shares outstanding after the purchase is completed, assuming all 135,000 shares are acquired.

LOOKING TO THE FUTURE

Progress made by the company during the past three years in strengthening its financial structure and resolving certain of its more serious litigation will enhance its opportunities for favorable growth in the future. During the past year funds were committed for investment in loans which management considered profitable, though of short duration. At the same time several proposed equity investments in real estate and other industries were explored and considered, and management anticipates that other opportunities will become increasingly available to it for profitable long-term investment in the future.

Respectfully submitted on behalf of the Board of Directors.

Chairman of the Board — President

May 10, 1967

Earnings Statement ursuant to ction 11(a) of the Securities Act of 1933

FRANCHARD CORPORATION

CONSOLIDATED EARNINGS STATEMENT
FOR THE TWELVE MONTHS ENDED FEBRUARY 28, 1967

Rents and related revenue	$22,077,636
Loss before extraordinary items	$(1,038,078)
Extraordinary items:	
Profit on 1965 sale of Hotel St. Regis	$ 2,880,898
Credit on termination of tenant's lease on Great Brook Industrial Park, Waterbury, Conn.	1,176,127
Assignment of lease — 63 Wall Street, New York City	(243,257)
Profit on sale of other property	854,515
	$ 4,668,283
Net income	$ 3,630,205

The above earnings statement, compiled by the company, is made generally available to its security holders in accordance with the provisions of Section 11(a) of the Securities Act of 1933. The period covered is twelve months beginning after the effective date of its Registration Statement, February 4, 1966, relating to the issuance of $1,734,700 – 8% Subordinated Debentures due January 15, 1986. The period covered by this statement does not coincide with the company's fiscal year, which is the calendar year. The 1967 operations included in this statement are subject to adjustment and audit in connection with the year-end examination by our certified public accountants.

Consolidated Balanc

ASSETS

	1966	1965
CURRENT ASSETS:		
Cash	$ 738,447	$ 1,014,285
Bank certificates of deposit and treasury bills	601,660	1,865,000
Accounts, notes and mortgages receivable:		
Tenants and hotel guests, less allowance of $88,668 in 1966, $107,882 in 1965	1,213,605	878,428
Loans receivable (Note 2)	3,219,333	—
Other	631,806	730,017
Hotel inventory, at lower of cost or market	102,778	132,894
Tenants' deposits and other segregated funds	459,782	365,488
Deposits with utilities and others	290,181	723,210
Prepaid expenses	357,096	407,655
Total current assets	7,614,688	6,116,977
INVESTMENTS AND OTHER ASSETS:		
Second mortgages receivable after one year— Hotel St. Regis and other, less allowances of $501,766 in 1966, $3,417,954 in 1965 (Note 1)	3,636,186	1,127,377
Notes receivable from officers and directors and interest thereon (Note 8)	325,164	411,600
Loan receivable (Note 2)	1,500,000	—
Receivable in connection with Hotel Commodore, less allowance of $1,183,121 in 1966 and 1965 (Note 3)	69,605	75,000
Other	70,182	96,835
Total investments and other assets	5,601,137	1,710,812
FIXED ASSETS (Notes 4 and 5):		
Real estate:		
Land	9,692,832	10,107,157
Buildings and improvements	44,390,846	47,160,495
Leaseholds (including buildings and improvements)	20,761,520	23,912,851
	74,845,198	81,180,503
Accumulated depreciation and leasehold amortization	32,999,966	32,782,044
Net real estate	41,845,232	48,398,459
Other fixed assets, at cost less accumulated depreciation of $175,728 in 1966, $140,417 in 1965	202,352	237,663
Net fixed assets	42,047,584	48,636,122
DEFERRED EXPENSES—principally tenants' alterations and leasing expenses (being amortized)	2,723,630	2,626,025
	$57,987,039	$59,089,936

The accompanying notes are an integral part of this statement.

heet DECEMBER 31, 1966 and 1965

LIABILITIES AND SHARE OWNERS' EQUITY

	1966	1965
CURRENT LIABILITIES:		
Accounts payable	$ 836,567	$ 784,770
Accrued taxes	341,100	379,541
Other accrued liabilities	836,725	1,087,587
Tenants' deposits and other segregated funds	518,097	451,862
Rents received in advance	209,140	176,009
Current portion of mortgages payable (Note 5)	1,693,603	1,101,470
Total current liabilities	4,435,232	3,981,239
MORTGAGES PAYABLE AFTER ONE YEAR (Note 5)	33,789,490	40,413,708
CLAIM IN CONNECTION WITH HOTEL COMMODORE (Note 3)	200,000	200,000
DISCOUNT ON PREPAYMENT OF A MORTGAGE (being amortized)	229,967	269,244
8% SUBORDINATED DEBENTURES, DUE 1986 (Note 6)	1,734,700	—
DEFERRED CREDIT – GENERAL MOTORS CORPORATION (Note 7)	1,000,000	—
MINORITY INTERESTS IN SUBSIDIARIES	53,648	70,831
SHARE OWNERS' EQUITY (Notes 6 and 10):		
Common Stock, $1 par value (Note 8):		
Class A – authorized 10,000,000 shares – issued 5,549,549 shares in 1966, 6,189,389 shares in 1965	5,549,549	6,189,389
Class B – authorized 127,246 shares – outstanding 100,171 shares	100,171	100,171
Capital surplus	17,011,355	18,006,374
Deficit (Note 5)	(5,981,973)	(10,141,020)
	16,679,102	14,154,914
Deduct – 54,040 shares of Class A Common Stock acquired in exchange for 8% Subordinated Debentures subsequent to April 1, 1966, stated at principal amount of Debentures	(135,100)	—
Total share owners' equity	16,544,002	14,154,914
LEASE COMMITMENTS (Note 9)		
LITIGATION (Note 10)		
	$57,987,039	$59,089,936

The accompanying notes are an integral part of this statement.

Consolidated Statement of Operations

YEARS ENDED DECEMBER 31, 1966 and 1965

	1966	1965
RENTS AND RELATED REVENUE (Note 12)	$22,400,912	$ 24,060,819
EXPENSES (excluding depreciation and leasehold amortization):		
Building and hotel operating expenses	12,806,170	13,618,516
Real estate taxes (Note 9)	3,294,680	3,218,582
Leasehold and ground rents	1,897,743	2,452,017
Interest and debt expense	1,921,518	2,043,528
General and administrative expenses	732,165	799,016
Allowance for loss on receivable from former sub-lessee of Hotel Commodore	–	283,121
	20,652,276	22,414,780
Income from operations before depreciation and leasehold amortization	1,748,636	1,646,039
Depreciation and leasehold amortization	3,412,478	3,992,520
Loss from operations (Note 12)	(1,663,842)	(2,346,481)
Other income (deductions):		
Interest and discount earned	776,384	483,068
Debenture interest and debt expense	(109,898)	–
Minority interests' share of net income of subsidiaries	(10,293)	(15,432)
Other – net	80,875	(26,638)
	737,068	440,998
LOSS BEFORE EXTRAORDINARY ITEMS	(926,774)	(1,905,483)
EXTRAORDINARY ITEMS:		
Net gain on property transactions (Note 1):		
Profit on 1965 sale of Hotel St. Regis	2,880,898	–
Credit on termination of tenant's lease on Great Brook Industrial Park, Waterbury, Conn.	1,176,127	–
Assignment of Company leases:		
711 Main Street, Houston	417,538	–
63 Wall Street, New York City	(243,257)	–
Profit on sale of other property	854,515	238,760
Adjustment of Hotel Commodore leasehold investment	–	(1,166,365)
	5,085,821	(927,605)
NET INCOME (LOSS) (Note 11)	4,159,047	(2,833,088)
Deficit, beginning of year	(10,141,020)	(7,307,932)
Deficit, end of year (Note 6)	$(5,981,973)	$(10,141,020)
PER SHARE OF COMMON STOCK:		
Loss before extraordinary items	$(.16)	$(.32)
Extraordinary items	.88	(.15)
Net income (loss)	$ .72	$(.47)

The accompanying notes are an integral part of this statement.

Consolidated Statement of Capital Surplus

YEARS ENDED DECEMBER 31, 1966 and 1965

	1966	1965
Balance, beginning of year	$18,006,374	$19,302,399
Deduct:		
Excess of principal amount of 8% Subordinated Debentures issued over par value of 639,840 shares of Class A Common Stock received pursuant to exchange offer through April 1, 1966 and retired pursuant to share owner authorization on June 30, 1966	(959,760)	–
Company's share of final settlement of share owners' suits plus expenses	(35,259)	(1,520,500)
Add excess of sales price over par value of 300,000 shares of Class A Common Stock sold to officers and directors, less expenses (Note 8)	–	224,475
Balance, end of year	$17,011,355	$18,006,374

Consolidated Statement of Source and Use of Funds

YEAR ENDED DECEMBER 31, 1966

SOURCE OF FUNDS:		
Income from operations before depreciation and leasehold amortization of $3,412,478	$1,748,636	
Other income	737,068	$2,485,704
Net cash proceeds from 1966 property transactions		1,126,166
Collections of principal on second mortgages		537,053
Collection of principal on notes receivable from officers and directors		102,900
Recovery of security deposit in connection with litigation involving Hotel Commodore, less $170,000 paid in settlement of such litigation		170,000
Received from General Motors Corporation upon extension of lease (Note 7)		1,000,000
Cash balance and bank certificates of deposit, January 1, 1966		2,879,285
		$8,301,108
USE OF FUNDS:		
Amortization payments on mortgages		$1,096,482
Investment in loans receivable (Note 2)		4,719,333
Improvements to properties		475,683
Tenants' alteration and leasing expenses, less amortization of $462,730 charged against income		151,843
Decrease in accounts payable and sundry liabilities		243,678
Increase in receivables and sundry assets		273,982
Cash balance, bank certificates of deposit and treasury bills, December 31, 1966		1,340,107
		$8,301,108

The accompanying notes are an integral part of the above statements.

Notes to Financial Statements
December 31, 1966

NOTE 1 — EXTRAORDINARY ITEMS:
The Company did not report a profit on the sale of the Hotel St. Regis in 1965, the year in which it was sold. It was not then clear to what extent a $4,000,000 second mortgage received in connection with the sale would be collectible. The purchaser of the hotel had no personal liability and, therefore, it was considered that the value of the mortgage was dependent upon the profitability of the hotel or the value of the land on which the hotel is situated. At December 31, 1965 the excess of the sales price over net book value of $3,030,898 was applied as an allowance against the second mortgage. It has now been determined by officers of the Company that the hotel is being operated by a subsidiary of Sheraton Corporation of America under a fifteen year lease, guaranteed by the parent corporation, which provides rental payments adequate to pay the installments on the Company's mortgage according to its terms. Accordingly, the excess of the sales price over net book value (less a $150,000 prepayment discount on the mortgage) is reflected as a profit in the 1966 statement of operations. The second mortgage has been reduced by payments to $3,675,861 at December 31, 1966, bears interest at 6% and is due in installments aggregating $400,000 annually, including interest, with $1,834,080 due at maturity in 1975. $184,466 principal payments due in 1967 are included in current assets.

In November 1966 the Company assumed operations of Great Brook Industrial Park following the tenant's default under its lease. As a result of the default, the second mortgage on the property of $3,500,000 was cancelled in accordance with its terms, the cost of the property was reduced by $3,500,000 and related accumulated depreciation to date of default of $1,176,127 was credited to income as an extraordinary item. The 1966 statement of operations includes a loss from this property of $135,901 after deducting depreciation and amortization of $240,437. Current operations yield a profit from operations before depreciation and a small loss after depreciation.

The lease on 63 Wall Street was on property owned by a limited partnership syndication originally organized by a subsidiary of the Company and net leased to the subsidiary. The Company is supervisory management agent of the partnership and the latter's general partners are officers and directors of the Company, but they have no financial interest in the partnership. Due to increased costs effective January 1, 1967, the Company would have incurred substantial annual losses in the continued operation of the building under the lease. In the opinion of the Company's counsel, the assignment of the lease was in compliance with the terms of the lease.

NOTE 2 — LOANS RECEIVABLE:
A one year loan of $1,200,000 bearing 9¾% interest and secured by second deeds of trust on undeveloped property in Santa Barbara County and certain other property was made on October 6, 1966 to an individual owning an 18% interest in Norvic Associates, Inc. In an unrelated transaction, prior to the loan, Norvic Associates, Inc. had agreed to dispose of its 4.6% interest in the Company's Class A Common Stock and its 49.9% interest in its Class B Common Stock, which transaction was consummated on November 2, 1966. Other stockholders of Norvic Associates, Inc. include officers and directors of the Company. In April 1967, the Company agreed to extend for 90 days the due date for the first $58,500 interest payment on this loan. Notwithstanding this extension management of the Company expects the loan to be paid on or before the due date. A partnership agreement between the borrower and a subsidiary of the Company provides for equal sharing of the profits from the Santa Barbara property.

A loan of $2,000,000 was made on November 3, 1966 to a publicly owned real estate and land development company. This loan is due May 3, 1967, bears an effective rate of interest of 12% and is carried in current assets in the amount of $2,019,333 at December 31, 1966. The loan is secured by the capital stock and subordination of the indebtedness of a subsidiary of the borrower, the assets of which subsidiary consist principally of land currently being developed in the New Orleans area. On April 28, 1967 the Company agreed to extend the loan for 30 days.

On September 12, 1966 the Company loaned $1,500,000 as a participant in a substantially greater loan due March 31, 1968 made by a finance company to a publicly owned land development company. Interest payable to the Company, net of charges for servicing the loan by the finance company, is 10.8%. The loan is secured by assignment of accounts receivable from sale of land to individuals and by mortgages.

NOTE 3 — RECEIVABLES AND CLAIMS IN CONNECTION WITH HOTEL COMMODORE:
During 1967 $36,960 was received as a final distribution in the bankruptcy proceeding of the former sublessee of the Hotel Commodore and was applied against the Company's receivable of $69,605 (after allowance of $1,183,121). Action is pending on guarantees relating to the receivable made by Webb & Knapp, Inc. and Mr. William Zeckendorf. The Trustee in bankruptcy reorganization of Webb & Knapp, Inc. is continuing to press the action against the Company to recover $200,000 received by the Company as an alleged payment in preference to other creditors.

NOTE 4 — BASIS OF PROPERTIES:
The amounts at which properties are stated in the balance sheet do not purport to represent market or realizable values. Properties of subsidiary partnerships and corporations, to the extent equities were acquired in exchange for Class A Common Stock, are stated on the basis of the cost shown by the books of such subsidiaries. Cash costs of acquiring minority interests in subsidiaries in excess of equities at dates of acquisition as shown by their books are included in properties. Properties acquired directly by the Company are stated at cost (cash and related mortgages) or the then market value of shares of Class A Common Stock issued therefor.

NOTE 5 — MORTGAGES PAYABLE:

Interest Rate	Year of Maturity	Balance at Maturity	Balance December 31, 1966 — Due After One Year	Balance December 31, 1966 — Due Within One Year
2½%	1967(B)	$ 655,937	$ 651,108	$ 12,027
3%	1967	686,035	—	764,980(E)
4%	1977	4,055,889	5,569,967	137,147
4½%	1983	2,443,741	3,730,521(A)	55,758(A)
4¾%	1988(B)	None	1,520,526	36,824
5½%	1975	None	1,215,827(C)(D)	117,526(D)
5½%	1975	4,096,029	5,209,181	121,780
5½%	1978	None	786,872	57,010
5¾%	1974	705,456	847,785(A)	19,635(A)
5¾%	1974	1,539,818	1,872,073	44,467
5¾%	1975	4,217,400	5,185,669	110,842
6%	1968	1,037,931	1,055,546	20,011
6%	1974(B)	560,075	602,310	7,002
6%	1983	913,387	2,514,609(A)	59,860(A)
6%	1983	None	1,892,614(A)	73,280(A)
6½%	1980	None	386,281	19,209
7%	1979	None	748,601(C)(D)	36,245(D)
Total mortgages			$33,789,490	$1,693,603(E)

(A) These mortgages (for which the Company has not assumed liability) exceeded the net book value of the properties securing the mortgages at December 31, 1966 by an aggregate of $2,119,474.

(B) The Company has a commitment to consolidate these mortgages, the consolidated mortgage to bear interest at 5¾% and mature in 1974. The amount due within one year gives effect to the terms of the consolidated mortgage.

(C) These mortgages were incurred prior to the 1962 devaluation of the Canadian dollar and are payable in Canadian dollars. The balance due after one year is stated at par; the U.S. dollar equivalent at December 31, 1966 was approximately $147,000 less than the amount shown as due after one year.

(D) Liability on these mortgages has been assumed by a subsidiary whose net assets at December 31, 1966 aggregated $784,936. With this exception, the assets of the Company or its subsidiaries, other than the applicable mortgaged property, are not subject to the claims of mortgagees. All properties of the Company are security for related mortgages, except three properties having an aggregate net book value of $1,225,524.

(E) Includes $686,035 due at maturity of mortgage on December 15, 1967; the net book value of the property securing the mortgage at December 31, 1966 was $1,396,845.

NOTE 6 — 8% SUBORDINATED DEBENTURES:

The Indenture relating to the Debentures provides for retirement by redemption of 3% of the original principal amount of the Debentures on each January 15 from 1976 to 1985 through the operation of a sinking fund. It prohibits the payment of dividends or other distributions if semi-annual interest payments are not made or sinking fund obligations are not met. If the Company is in arrears (as defined in the Indenture) in the payment of principal and interest on the Debentures for two years, the debenture holders become entitled to the same voting rights as holders of Class A Common Stock on the basis of one vote for each $2.50 principal amount of Debentures.

NOTE 7 — DEFERRED CREDIT:

During 1966 the Company agreed to extend its lease to General Motors Corporation (the major tenant in the General Motors Building) for one year from April 30, 1968 at the present rental. The lease extension may be cancelled by the tenant on or after October 31, 1968 subject to payment to the Company of $50,000 for each month cancelled. Under certain extraordinary circumstances not now anticipated, General Motors may extend its lease for an additional year at the same rental and with the same cancellation privilege on or after October 31, 1969. Under the agreement, the Company received $1,000,000 which amount is being deferred until earned over the lease extension periods.

NOTE 8 — COMMON STOCKS:

Each share of Class B Common Stock is convertible, at the option of the holder, into one share of Class A Common Stock. On February 1, 1971, each share of Class B Common Stock then outstanding will automatically be converted into one share of Class A Common Stock. Class A and Class B share owners vote as a single class. The right of the Class B share owners to elect two-thirds of the Board of Directors was suspended in 1966 but may be reinstated if at least 100,000 shares of Class B Common Stock remain outstanding and if certain required cash distributions are made to Class A share owners.

Upon any liquidation, whether voluntary or involuntary, the Class A Common Stock is entitled to receive an amount equal to $10 per share before any distribution is made upon the Class B Common Stock; thereafter, the Class B Common Stock is entitled to receive an amount equal to $1.00 per share before any further distribution is made on the Class A Common Stock. Thereafter, each share of each class shares pro rata in any assets of the Company remaining to be distributed.

Distribution rights with respect to both classes of stock are non-cumulative. Cash distributions with respect to 100,054 shares of Class B Common Stock have been waived.

Under the Employees' Restricted Stock Option Plan, options were outstanding at December 31, 1966 for the purchase of 42,000 shares at $13.20 per share, of which options to purchase 33,600 shares were then exercisable. The balance of the outstanding options becomes exercisable in 1967 and all options expire in April 1972. During the year no options were granted and none expired or were exercised. No further shares were available for grant at the beginning or end of the year.

Under the Class A Common Stock Purchase Plan for Executive Personnel, stock is sold to officers and executive personnel at the market price on the date of sale, with 2% cash due on execution of the contract and the balance in five equal notes (bearing interest at 4%) maturing annually thereafter. The 1967 installment of $102,900 is included in Accounts, notes and mortgages receivable — other. On March 15, 1967 the Company sold to an officer and director of the Company who had not previously purchased such shares the remaining 50,000 shares available under this Plan at $1.9375 per share. See Note 10.

The authorized shares of Class A Common Stock at December 31, 1966 include 192,171 shares reserved for the above mentioned conversions, options and purchase.

On December 21, 1966 the Board of Directors authorized a tender offer to be made in the future to share owners owning less than 100 shares of Class A Common Stock.

NOTE 9 — LEASE COMMITMENTS:

Long-term leaseholds, the initial terms of which expire after December 31, 1969 to July 31, 2025, provide for minimum annual rentals through 1971 of approximately $595,000. Under the terms of the leases the Company has the right to assign these leaseholds without the consent of the lessors and without further liability. Assessed real estate taxes for 1966 under all long-term leaseholds amount to approximately $600,000.

NOTE 10 — LITIGATION:

On May 2, 1966 the United States District Court for the Southern District of New York approved a settlement agreement entered into by the Company and other defendants in the so-called class-actions concerning registration statements filed prior to 1963. Pursuant to the terms of the settlement a fund of $1,825,000 (of which the Company contributed $1,425,000) will be disbursed for the benefit of share owners or former share owners who establish claims for certain recognized losses in the Company's stock and for expenses.

An action was commenced in the United States District Court for the Southern District of New York on December 14, 1966 by certain limited partners (alleging to represent

all limited partners "similarly situated") of 21 West Associates (a limited partnership syndication organized by the Company) against the Company and certain officers and other persons. 21 West Associates owns the office building at 21 West Street, New York City. The complaint alleges that a prospectus dated February 10, 1961, pursuant to which limited partnership interests were offered for sale in the State of New York, contained false and misleading statements in violation of federal securities acts and applicable state statutes. Relief is sought on behalf of purchasers and holders of such interests in the form of a rescission of their purchase of such interests and recovery of amounts paid for their interests, together with interest less distributions made, aggregating approximately $2,400,000 at the present time if the relief was applicable to all original purchasers of such interests. Rescission would result in the Company obtaining the property which, in the opinion of management, has substantial value. Counsel for the Company believes that it has meritorious defenses to the action based on facts presently available.

Derivative share owner actions have been commenced in the Court of Chancery in Delaware and in the Supreme Court of New York against certain officers and directors of the Company and Norvic Associates, Inc., claiming that the defendants be required to account to the Company for any damages and losses sustained by it by reason of acts of the defendants relating to the Class A Common Stock Purchase Plan for Executive Personnel and the 8% Subordinated Debentures Exchange Offer and, in addition, to pay over to the Company any gains realized by the defendants by reason of the acts complained of. The Company has no financial liability in these actions except to the extent that it may be required to compensate officers and directors who successfully defend the action for their expenses.

The Company also is a defendant in actions seeking to recover sums allegedly due from a former Company president (who held office until December 1962) and his companies and in actions brought by subcontractors for sums allegedly due for construction work. In the opinion of counsel, the Company has meritorious defenses to these actions.

See Note 3 for litigation in connection with Hotel Commodore.

Note 11 — Federal Income Tax Loss Carryovers

An examination of the Company's federal income tax returns for 1960 to 1962 was completed during the year by the Internal Revenue Service. The examination reduced depreciable basis of certain properties for tax purposes and extended certain tax lives. While no tax liability resulted to the Company, it had the effect of making a portion of distributions paid to share owners in 1960 and 1961 taxable as dividend income.

The Company has a tax loss carry-forward of approximately $900,000. In addition, there are a number of cumulative differences in book and taxable income relating to depreciation, the aforementioned receipt from General Motors Corporation, Hotel Commodore receivable and leasehold and other items. These items and the above mentioned tax loss carry-forward (subject to time limitations on the utilization of tax loss carry-forwards) will permit book income of approximately $4,700,000 to be earned without any federal income taxes being provided in the statement of operations.

Note 12 — Operations

The Company will cease to operate the Hotel Commodore on or before December 31, 1967, the expiration date of its leasehold. The statement of operations includes 1966 rents and related revenues for the Hotel Commodore of $8,614,448 and an operating loss of $195,622 after depreciation and amortization of $391,371.

Tenants leases on the Company's properties expire from time to time. Leases of major tenants in the Corn Products Building, Security Title Insurance Building and the General Motors Building expire in 1967 and 1968. The U.S. Government occupies substantial amounts of space in several properties under short-term leases. Lease expirations in the next several years for smaller tenants are not considered extraordinary. The Company may be required to make substantial expenditures on lease terminations to alter and renovate properties and to obtain new tenants.

Properties disposed of during the year contributed 1966 rents and related revenues of $1,638,255 and operating loss of $16,012 after deducting depreciation and amortization of $41,902.

Report of Certified Public Accountants

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N.Y. 10017

The Board of Directors and Share Owners
Franchard Corporation

We have examined the accompanying consolidated balance sheet of Franchard Corporation at December 31, 1966, the related consolidated statements of operations and capital surplus and the consolidated statement of source and use of funds for the year then ended. Our examination of the financial statements of the Company and its subsidiaries, except Domoc Corporation (which subsidiary operates the Hotel Commodore), was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have received the report of other independent public accountants with respect to their examination of the financial statements of Domoc Corporation.

In our opinion, based upon our examination and the report of other independent public accountants referred to above, the statements mentioned above present fairly the consolidated financial position of Franchard Corporation at December 31, 1966, the consolidated results of operations and the source and use of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

April 10, 1967

ARTHUR YOUNG & COMPANY

FRANCHARD
CORPORATION

Officers and Directors

FRANCIS S. LEVIEN
Chairman of the Board

GUSTAVE G. AMSTERDAM
Director

MURRY C. BECKER
Director

WILLIAM G. DILLON
Vice President, Assistant Secretary and Director

MONROE R. GOODMAN
Assistant Secretary

GORDON K. GREENFIELD
President and Director

MAURICE L. HEFFER
Director

WILLIAM M. JENNINGS
Secretary and Director

VICTOR NEMEROFF
Director

SIDNEY SCHWARTZ
Controller

LOUIS A. SIEGEL
Vice Chairman of the Board and Chairman of Executive Committee

NORMAN SPELKE
Director

ARTHUR UNGER
Assistant Vice President—Insurance

SEYMOUR YOUNG
Executive Vice President and Director

EXECUTIVE OFFICES:
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New York, New York 10015

REGISTRAR:
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1 Chase Manhattan Plaza
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AUDITORS:
Arthur Young & Company
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COUNSEL:
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